

*Printed for the War Cabinet. December 1939.***SECRET.****Copy No. 39****W. M. (39)****105th Conclusions.****TO BE KEPT UNDER LOCK AND KEY.**

It is requested that special care may be taken to ensure the secrecy of this document.

**WAR CABINET 105 (39).**

*CONCLUSIONS of a Meeting of the War Cabinet held at 10 Downing Street, S.W. 1, on Wednesday, December 6, 1939, at 11.30 A.M.*

**Present :**

The Right Hon. NEVILLE CHAMBERLAIN, M.P., Prime Minister ( <i>in the Chair</i> ).	
The Right Hon. Sir JOHN SIMON, K.C., M.P., Chancellor of the Exchequer.	The Right Hon. VISCOUNT HALIFAX, Secretary of State for Foreign Affairs.
Admiral of the Fleet the Right Hon. LORD CHATFIELD, Minister for Co-ordination of Defence.	The Right Hon. WINSTON S. CHURCHILL, M.P., First Lord of the Admiralty.
The Right Hon. L. HORE-BELISHA, M.P., Secretary of State for War.	The Right Hon. Sir KINGSLEY WOOD, M.P., Secretary of State for Air.
The Right Hon. Sir SAMUEL HOARE, Bt., M.P., Lord Privy Seal.	The Right Hon. LORD HANKEY, Minister without Portfolio.

**The following were also present :**

The Right Hon. Sir JOHN ANDERSON, M.P., Secretary of State for the Home Department and Minister of Home Security.	The Right Hon. ANTHONY EDEN, M.P., Secretary of State for Dominion Affairs.
The Right Hon. OLIVER STANLEY, M.P., President of the Board of Trade ( <i>Item 11</i> ).	Mr. GEOFFREY LLOYD, M.P., Secretary for Mines ( <i>Item 11</i> ).
Sir HORACE J. WILSON, Permanent Secretary to the Treasury.	Air Chief Marshal Sir CYRIL L. N. NEWALL, Chief of the Air Staff ( <i>Items 1-9</i> ).
Admiral of the Fleet Sir DUDLEY POUND, First Sea Lord and Chief of Naval Staff ( <i>Items 1-9</i> ).	General Sir W. EDMUND IRONSIDE, Chief of the Imperial General Staff ( <i>Items 1-9</i> ).

Sir GEORGE MOUNSEY, Secretary,  
Ministry of Economic Warfare  
(*Item 11*).

**Secretariat.**

Sir EDWARD BRIDGES.  
Major-General H. L. ISMAY.  
Mr. F. HEMMING.  
Mr. W. D. WILKINSON.  
Lieutenant-Colonel V. DYKES, R.E.  
Lieutenant-Colonel E. I. C. JACOB, R.E.  
Mr. L. F. BURGIS.  
Mr. G. N. FLEMMING.

# WAR CABINET 105 (39).

## CONTENTS.

<i>Minute No.</i>	<i>Subject.</i>	<i>Page.</i>
1	The Air Situation ... ..	311
2	The Naval Situation ... ..	311
3	The Military Situation ... ..	311
4	Weekly Reports ... ..	312
5	Finland ... .. Invasion by Soviet Union.	312
6	Dominion Air Training Scheme ... ..	312
7	League of Nations ... .. Forthcoming Meeting of the Council and Assembly.	312
8	Italy ... .. Attitude towards the United Kingdom: Contraband Control.	313
9	Italy ... .. Attitude towards the U.S.S.R. in the Balkans.	314
10	France ... .. Anglo-French financial arrangements.	314
11	Italy ... .. Anglo-Italian economic relations.	316

**The Air Situation.**

(Previous  
Reference:  
W.M. (39) 104th  
Conclusions,  
Minute 1.)

1. *The Secretary of State for Air* said that there had been considerable enemy activity off the East Coast during the previous night, about 15 raids in all having been plotted.

Two aircraft appeared to have crossed the coast: one in the neighbourhood of Norwich, and one near Hull, which had penetrated to Sheffield and the Midlands. The activity had seemed to have been along the route of the East Coast convoy, between Spurn Point and North Foreland, and had been greatest in the vicinity of the Thames Estuary.

It had been a very dark night, and there had been no reports of anything having been seen to drop from the aircraft. One aircraft, however, was reported to have landed on the water, not far from the Isle of Sheppey, and a searchlight on the island was reported to have been fired at.

A Fighter section had been sent up in the latter part of the night, but had not made any interception. One enemy aircraft had crashed on the beach near Sheringham.

There had been two attacks on U-boats by aircraft, but without definite result.

In reply to enquiries, *the Chief of the Air Staff* said that the German aircraft had carried out a very difficult operation in the conditions prevailing the night before. They had probably been guided by a beacon situated at Sylt. Our pilots who had gone up had reported that they could see nothing.

The aircraft which had crossed the coast might have been attempting to locate particular objectives, or might have lost their way. It was probable that the aircraft reported to have landed on the water had not been within range of defensive weapons. There had formerly been certain restrictions limiting the opening of fire against single aircraft, but these had now been removed.

The War Cabinet took note of the above statements.

**The Naval Situation.**

(Previous  
Reference:  
W.M. (39) 104th  
Conclusions,  
Minute 2.)

2. *The First Lord of the Admiralty* gave the War Cabinet the details of fleet dispositions.

The Admiralty had received reports of mines having been dropped off Sheerness, and in the inner channel at Lowestoft, in the course of the raids the previous night, which had been referred to by the Secretary of State for Air. The channels affected had consequently been closed.

The S.S. *Navasota* (8,795 tons), outward bound in ballast, had been torpedoed in convoy South-West of the Fastnet Rock. The escorting destroyers were hunting the U-boat in a very heavy sea.

A Norwegian steamer of 1,000 tons had been sunk by explosion 100 miles East of Buchan Ness.

A trawler, *Kingston Andalusite*, had attacked a submarine at the Folkestone gate in the minefield, with promising results.

The S.S. *Eskdene*, which had been mined but which it had been hoped to bring into port, had not yet been located by the tugs. The search was continuing.

The War Cabinet took note of the above statement.

**The Military Situation.**

(Previous  
Reference:  
W.M. (39) 104th  
Conclusions,  
Minute 5.)

3. *The Secretary of State for War* said there was no activity to report on the Western Front.

The War Cabinet took note of the above statement.



**Weekly Reports.**

(Previous  
Reference:  
W.M. (39) 98th  
Conclusions,  
Minute 4.)

4. The War Cabinet took note of Weekly Reports by the Secretaries of State for War and Air (W.P. (39) 147 and 146).

**Finland.**

Invasion by  
Soviet Union.  
(Previous  
Reference:  
W.M. (39) 104th  
Conclusions,  
Minute 6.)

5. *The Secretary of State for War* said that Press reports from Copenhagen stated that Russian troops had occupied Kuolajarvi in the north of Finland. There was no confirmation of this report, but it was a likely operation. It was also reported that Russian troops from Murmansk had been landed near Petsamo. Such an operation could easily be carried out, but it was doubtful whether the troops would make much progress owing to the very difficult nature of the country and the bad climatic conditions. There was no change in the situation in the Karelian Isthmus and north of Lake Ladoga. The Finns claimed to have bombed Murmansk and to have captured 64 Russian tanks.

*The Secretary of State for Air* added that bad weather had prevented much air activity. The clothing of captured Russian airmen was reported to be of very inferior quality.

The War Cabinet took note of the above statements.

**Dominion Air  
Training  
Scheme.**

(Previous  
Reference:  
W.M. (39) 100th  
Conclusions,  
Minute 5.)

6. *The Secretary of State for Air* informed the War Cabinet that a reply had just been received from the Prime Minister of Canada to the telegram which had been despatched to him as a result of the discussion which had taken place at the meeting of the War Cabinet referred to in the margin.

The Secretary of State then read the telegram which had been received (No. 125, dated the 6th December, 1939, a copy of which is attached as an Annex to the present Conclusions).

He thought that the terms of the draft statement which Mr. Mackenzie King now favoured were acceptable; but he would take an opportunity of consulting the Secretary of State for Dominion Affairs, before submitting a draft reply to the War Cabinet.

The War Cabinet agreed to this course.

**League of  
Nations.**

Forthcoming  
Meeting of the  
Council and  
Assembly.  
(Previous  
Reference:  
W.M. (39) 103rd  
Conclusions,  
Minute 8.)

7. *The Secretary of State for Foreign Affairs* drew attention to telegram No. 409, dated the 5th December, 1939, from Paris, in which our Ambassador reported that he had been informed by M. Champetier de Ribes that the French Government thought that the intention of a number of neutral countries, including certain South American States, to demand the expulsion of the U.S.S.R. from the League of Nations at the impending meeting of the Assembly, might give rise to an "interesting situation" which might be turned to our advantage. The French Government realised the importance of not provoking the U.S.S.R., but in the face of French public opinion they could not appear to acquiesce in the atrocious crimes against Finland. M. Daladier had been thinking of going to Geneva himself, and had not, M. de Ribes thought, entirely abandoned the idea.

The Secretary of State added that he proposed to ascertain from M. Daladier the nature of the situation which he thought might arise at Geneva, and at the same time to discourage him from himself attending the League meeting. If, however, M. Daladier decided himself to represent France at this meeting, the War Cabinet might wish to consider whether or not he (the Secretary of State) should also be present.

*The Prime Minister* thought that M. Daladier should be discouraged from going to Geneva, since this would give undue importance to the meeting, which could not produce any useful results. Even if M. Daladier decided to go to Geneva, he (the Prime Minister) would require a lot of convincing that it was desirable for the Foreign Secretary to do so also.

*The First Lord of the Admiralty* thought that we might reap some advantage from the meeting of the League, since the discussion there would tend to focus the conviction that in the war we stood for the principles of humanity against barbaric aggression. There was also strong support in this country for international co-operation, and some organisation for this purpose would be needed after the war.

*The Secretary of State for Foreign Affairs* agreed that the League of Nations should be treated with proper respect, but his predominant feeling was that the forthcoming meeting would be futile and could therefore only tend to discredit the idea of international co-operation. There was also the danger, that if undue importance were attached to the meeting at Geneva, Signor Mussolini might become more difficult to deal with.

The War Cabinet took note of the above discussion.

#### Italy.

(Previous  
Reference:  
W.M. (39) 104th  
Conclusions,  
Minute 9.)  
Attitude  
towards the  
United  
Kingdom:  
Contraband  
Control.  
(Previous  
Reference:  
W.M. (39) 108rd  
Conclusions,  
Minute 11.)

8. *The Secretary of State for Foreign Affairs* said that before Sir Percy Loraine had left London, he had handed to him a personal letter for delivery to Count Ciano. The latter had now sent a written reply in which he drew attention to the grievances of Italian shipping on account of our Contraband Control. In telegram No. 1197, Sir Percy Loraine had expressed the view that Count Ciano had made these representations under Signor Mussolini's orders and that the latter, though possibly disillusioned about the Germans, was still nurturing his grudges against the democracies, and had not yet moved closer to us in personal sympathy. The Ambassador considered that both the question of Italian shipping and also doubts in Italy regarding the genuineness of our intention to place considerable orders with Italian industry were likely to be discussed by the Grand Fascist Council at its meeting on the 9th December, 1939, and were likely to react to our disadvantage. The Secretary of State felt that the situation demanded the greatest care, and that our best course would be to go slow in the matter of Contraband Control in relation to Italian shipping, but to press on as rapidly as possibly with our purchases from Italian industry.

*The Prime Minister* said that Signor Mussolini was in a very embarrassing position and was sensitive in regard to his personal engagements to Germany. It was natural therefore that he should react violently, whenever his attention was drawn to Italian grievances against this country.

*The Secretary of State for Foreign Affairs* said that it was important that it should be against this background that Anglo-Italian economic relations should be judged.

The War Cabinet took note of the above discussion.



**Italy.**

(Previous  
Reference:  
W.M. (39) 103rd  
Conclusions,  
Minute 10.)  
Attitude  
towards the  
U.S.S.R. in the  
Balkans.

9. *The Secretary of State for Foreign Affairs* drew attention to telegram No. 1199, dated the 5th December, 1939, from His Majesty's Ambassador, Rome, in which Sir Percy Loraine reported that he had been informed by the *Daily Telegraph* correspondent that he had a representative at present in Hungary. This representative had reported that the Hungarians were alarmed at the action of the U.S.S.R. in concentrating military forces on their frontier. Moreover, the Ukrainians in Hungary were being told that they would shortly be liberated. Sir Percy Loraine added that, according to the *Daily Telegraph* correspondent, the head of the Foreign Press Bureau had authorised him categorically to state that Italy would go immediately to the assistance of Hungary in the event of her being attacked by the U.S.S.R.

The War Cabinet took note of the above statement.

**France.**

Anglo-French  
financial  
arrangements.  
(Previous  
Reference:  
W.M. (39) 99th  
Conclusions,  
Minute 11.)

10. The War Cabinet had before them a Memorandum by the Chancellor of the Exchequer (W.P. (G.) (39) 135) on the results of his recent discussions with M. Paul Reynaud, the French Minister of Finance. It was explained in the Memorandum that M. Reynaud had been prepared, apart from one question which remained outstanding, to sign a comprehensive Anglo-French Financial Agreement, putting into practical effect, for the duration of the war and for a period of six months after the signature of the Treaty of Peace, the principle of monetary and financial co-operation.

There were attached to the Chancellor's Memorandum:—

- (1) a summary which had been prepared for communication to the Press, if the Agreement had been signed;
- (2) the French text of the Agreement, as initialled, but not signed;
- (3) the English text of the above;

together with other relevant documents.

*The Chancellor of the Exchequer* said that the Anglo-French Financial Agreement would secure for us a number of points to which we attached great importance. He instanced the following:—

- (a) The French would supply us, in return for sterling, with all the francs we needed for the British Expeditionary Force.
- (b) The French would not ask to have gold for the sterling which they now held (some £20 millions) or for further amounts of sterling which they might acquire; nor would they be free to sell that sterling for dollars.
- (c) No alterations were to be made in the official rate of exchange between the £ and the franc without prior agreement between the two Governments.

The difficulty which had prevented the signature of the Agreement was the French insistence that our contribution to certain expenses in the common cause\* should be double the French contribution. The Chancellor of the Exchequer said that he had proposed

\* Namely:—

- (1) future financial assistance to neutral and Allied countries;
- (2) losses on blockade purchases;
- (3) the expenses of the Polish armed forces and Czecho-Slovak armed forces (if and when raised);
- (4) expenditure under the following clause:—

'If the development of the war in third countries involves extraordinary expenses in the common cause which would fall to an unreasonable degree upon one of the two governments, then this principle (of sharing expenses) shall be applicable so far as agreed between the two Governments.' (See W.P. (G.) (39) 135, page 1.)

that our contribution to these items should be 60 per cent. and the French contribution 40 per cent.; he had put this forward as a practical solution, and had not thought it necessary to go into elaborate calculations of wealth per head in the two countries.

The utmost concession that M. Reynaud had so far made was to suggest that our contribution should be 65 per cent. and the French 35 per cent. The Chancellor said that he had seen no reason to depart from his own proposal. It had accordingly been agreed that he should report the position to the War Cabinet. Before taking this decision he had telephoned from Paris to the Prime Minister.

The Chancellor added that the psychological objections to a proportion of 2 : 1 seemed to him to be insuperable. The adoption of that proportion would present the German propagandists with a new argument in support of their favourite contention that France was being left to do the fighting while we supplied the money.

*The Prime Minister* thought that the Chancellor of the Exchequer was entitled to the support of the War Cabinet in the stand which he had taken for a contribution of 40 per cent. by France. The 2 : 1 proportion was quite unacceptable, and would be quoted in support of the German theory that we were the paymasters and that the French had to carry out our instructions.

*The Secretary of State for War* said that, in his view, the essential point in the draft Agreement was that summarised in the draft press communiqué in the sentence : " The question of sharing equitably the expenses which the two Governments have to defray in gold and dollars will be kept under review." He hoped that arrangements of this kind, once established, would be perpetuated in time of peace. They would be an instalment of the international economic co-operation which most men of goodwill desired to see. So long as the war lasted, we and the French ought to have a common purse. The large French gold reserve ought to be at the service of both Allies.

It was pointed out in reply that there were many difficulties in the way of a completely common purse, as between this country and France; for example—

- (1) The position in which we stood *vis-à-vis* the self-governing Dominions. To mention two financial projects now under examination, the French would be willing enough to share in the proceeds of the Canadian dollar loan, but most unwilling to join us in paying for the dollar expenditure to be incurred by Australia and New Zealand under the Dominion Air Training Scheme.
- (2) Our financial position differed in many other respects from that of France. The French had more gold than ourselves, but fewer foreign securities. Our arrangements for the realisation of these foreign securities were in better order and more advanced than theirs. It was very difficult to see how two countries so differently situated could agree to throw their gold, foreign exchange and foreign securities into a common pool.
- (3) M. Reynaud had done much to restore French finances. The fact remained, however, that our taxation and our National Debt were incomparably greater than the French taxation and National Debt.
- (4) The suggestion of a common purse, if carried out to its logical conclusion, would mean British interference in the details of the French budget and French interference in the details of the British budget.



*The Chancellor of the Exchequer* pointed out that Articles 9 and 10 of the Agreement would mark a great step forward, in that neither country would be able to dissipate its financial resources without consulting the other. In view of the differences between the two financial systems, it did not seem practicable to carry co-operation much further than that.

The following additional points were made in the course of discussion:—

- (1) If the Agreement went through, it would provide a considered plan to take the place of the former haphazard financial co-operation between this country and France, for example, over the gold loan to Turkey and with regard to the purchase of Roumanian oil.
- (2) If the Agreement were signed in its present form, it would be essential to impress upon Departments the importance of taking advantage of Article 19 to the greatest possible extent.

*The Chancellor of the Exchequer* said that M. Reynaud would very shortly be presenting his Budget. In these circumstances he would be anxious to announce an Agreement with us. On the whole, therefore, it seemed probable that the French Government would give way if we adhered to our view regarding the one item in dispute.

The War Cabinet agreed:—

- (i) that the French proposal, according to which this country and France would share items of "extraordinary expenditure in the common cause" in the proportion 2:1 was unacceptable, and that we should adhere to the proportion 3:2;
- (ii) to invite the Prime Minister to inform M. Daladier of the War Cabinet's views on this matter, and in particular of the apparent disadvantages of the French Government's suggestion, from the point of view of the grounds which it would afford for misrepresentation.

#### Italy.

Anglo-Italian  
Economic  
Relations.

(Previous  
References:  
W.M. (39) 55th  
Conclusions,  
Minute 11,  
and 81st  
Conclusions,  
Minute 8.)

(Previous  
Reference:  
W.M. (39) 89th  
Conclusions,  
Minute 3.)

11. The War Cabinet had before them a Memorandum prepared by the Secretary of State for Foreign Affairs, in consultation with the Minister for Economic Warfare, on Anglo-Italian Economic Relations (W.P. (G.) (39) 131).

*The Secretary of State for Foreign Affairs* explained that it was very desirable that we should inform the Italian Government at an early date to what extent we proposed to incur expenditure during 1940 in respect of payments for the purchase of Italian goods or for the use of Italian Shipping. The figures supplied by the Departments concerned indicated that we could safely give the figures of £20,000,000 for the former and £5,000,000 for the latter, making £25,000,000 in all. The need for an early decision arose in part from the fact that the notification of such a figure would help greatly in maintaining friendly relations with Italy. If possible this figure should be communicated before the meeting of the Fascist Grand Council on the 9th December. Further, our policy of seizing German exports would cut off the important supplies of German sea-borne coal to Italy, and it was no use encouraging Italy to look to us for supplies of coal unless we could make purchases in Italy which would enable the Italians to pay for them.

*The Chancellor of the Exchequer* welcomed the proposal, but urged that any figure given should represent the total of purchases



which we considered we should be able to make. He asked, therefore, that the figure should be further examined before the telegram was sent to Sir Percy Loraine.

*The First Lord of the Admiralty* drew attention to the great importance from the point of view of naval strategy of continuing our present satisfactory relations with Italy. If there were to be any difficulty in finding satisfactory ways of spending the money, which on general political grounds it was desirable to spend in Italy, the Admiralty would willingly see if any increase could be made in purchases on their account.

*The Secretary of State for War* said that his latest information was that we were likely to buy 1,000 anti-tank guns from Italy but that the cost of these would amount to only £1,250,000. *The Secretary of State for Air* said that so far his information was that the goods offered by the Italians to his Department were not of very satisfactory quality.

It was pointed out that, in addition to actual armaments, we contemplated making considerable purchases of Italian raw materials, *e.g.*, hemp and sulphur.

*The President of the Board of Trade* pointed out that it was essential that our offer to make purchases in Italy should be linked with a satisfactory Clearing Agreement to ensure that the proceeds of our purchases were used by the Italians in financing purchases in this country and in paying off debts already incurred. Since the war started the Italians had accumulated a debt of £1,000,000 on the clearing, and we could not undertake to supply coal in place of their imports from Germany, unless satisfactory arrangements were made for payment. He also suggested that the Minister of Shipping should explore the possibility of purchasing Italian ships. He thought that there was some risk that once a general offer had been made, the Italians might seek to sell us goods which we did not want, *e.g.*, fruit and vegetables which they had hitherto sold to Germany. In this connection the *Secretary of State for War* undertook to explore the suggestion that supplies of this kind might be used for our troops in Egypt and Palestine.

The War Cabinet :—

- (i) Invited the Secretary of State for Foreign Affairs, in consultation with the Chancellor of the Exchequer and the Minister for Economic Warfare, to examine further the information provided by the Service and Supply Departments, in order to satisfy himself that we should be justified in informing the Italian Government that we proposed to spend not less than £25 million in Italy up to the 31st December, 1940, in the purchase of raw materials and manufactured goods and in freight payments.
- (ii) Subject to this examination proving satisfactory—
  - (a) authorised the Secretary of State for Foreign Affairs to inform His Majesty's Ambassador in Rome that he could at once assure the Italian Government that we proposed to incur expenditure as indicated under (i) above;
  - (b) authorised the Secretary of State for Foreign Affairs, in consultation with the Treasury and other Departments concerned, to negotiate a Clearing Agreement with the Italian Government on the basis of the expenditure contemplated under (i) above and on the understanding set out in recommendation 3 of their Memorandum (W.P. (G.) (39) 131), namely, that—

“the necessary guarantees are forthcoming regarding the use made of raw materials

imported from the British Empire, and that we continue to receive the co-operation which we have encountered in our relations since the conclusion of the agreement to set up the Joint Standing Committee."

- (c) authorised the Ministry of Economic Warfare to take steps to stop Italian imports of German seaborne coal, as soon as we could supply the necessary additional coal and as soon as satisfactory arrangements could be made by means of a Clearing Agreement for payment to be made for this additional supply.

*Richmond Terrace, S.W. 1,  
December 6, 1939.*

---

ANNEX.

---

*Cypher Telegram from the Government of Canada, dated December 6, 1939.—  
(Received 4.42 A.M. December 6, 1939.)*

(No. 125. Immediate.)

YOUR telegram of the 1st December, No. 116. Following for your Prime Minister from my Prime Minister :—

*Begins:* 1. My colleagues and I have noted with pleasure the confirmation given by your telegram of the common approach made by the Governments of the United Kingdom and Canada ensuring the most effective utilisation of the resources available for successful prosecution of the war.

2. We appreciate the importance you attach to including in any public statement a reference to the presence in the theatre of war of Canadian land troops at the earliest possible moment. We quite concur in the inclusion of such a reference, and would suggest the incorporation in the announcement as set forth in paragraph 5 of your telegram the phrase at the end of paragraph 4, that is, after the concluding words of paragraph, "in the theatre of war," add "at the earliest possible moment." We would also suggest a further clarifying modification in the first sentence of the announcement by inserting the word "military" before "co-operation." With these modifications the announcement would be entirely acceptable to us. I assume that a communication on the other points mentioned in paragraph 7 of my telegram No. 120 of the 28th November, will be sent as soon as there has been opportunity of consulting Captain Balfour. *Ends.*

---